

Australia's expertise in financial services offers an export goldmine

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While the recent focus from Canberra has been on building an innovation nation, there is a big opportunity at our doorstep that is well-poised to boost Australia's future economic growth in the short to medium future if the right regulatory architecture is in place.

Australia's biggest trading partners — China, Japan and Korea — which have for decades been major customers for our minerals and agricultural products, are recognising there's

another valuable Australian resource their rapidly growing middle classes need — our expertise in financial services. Finance is following trade.

Australia's volume of financial services exports, specifically overseas investors putting funds into Australian managed investment trusts, has more than doubled over the past five years from \$20.3 billion to \$43.6bn. The data has been captured in the latest annual FSC-Perpetual Australian Investment Managers Cross-Border Flows Report, which analyses data from leading fund managers and is the only national measure of this export trade.

Funds from overseas investors are not only being invested in Australian assets by Australian fund managers, but more than half the funds coming in are being invested into global assets, showing that

more and more global customers, including fund managers, pension funds and private investors, recognise the expertise of Australian investment managers in managing global investment portfolios.

Asia accounts for 65 per cent of these cross-border flows. Our biggest customers are Japanese investors, followed by New Zealand and Korea. While Chinese

funds flows are still small, they grew significantly over the past 12 months, from \$210 million in 2013 to \$1.1bn last year.

These very positive numbers and the associated value added to the national economy — \$434m in 2012-13 — are poised to expand exponentially.

This is because all the pieces for increasing trade in financial services are fitting into place for the first time. These include the free trade agreements with Japan,

Korea and China, which allow unprecedented access to these markets for our financial services businesses, and the Asia Region Funds Passport, which will align regulatory systems in the signatory nations.

The final pieces are essential domestic legislative reforms known as the "Johnson agenda".

In 2009, former Macquarie Group deputy chairman Mark Johnson wrote a groundbreaking report that set out the parameters for Australia to be a global financial centre. Many reforms Johnson recommended, including reform to Australia's complex system of withholding taxes and vehicles used to market and sell funds, need to be ramped up.

In September the government brought in legislation that gives tax certainty to foreign investors. In the last sitting week, a new

managed investment trust regime was introduced into parliament, a much-needed initiative that will provide clarity and certainty for investors in relation to longstanding technical tax issues.

But more must be done if we are to turbocharge our exports of financial services and funds management skills.

Australia's withholding tax rate must come down. Investors balk at our complex and relatively high rate of withholding tax of up to 30 per cent, especially when Singapore's is zero.

As well, the government must install the remaining Johnson reforms, the most important of which is to broaden the range of

collective investment vehicles. Put simply, overseas investors are not familiar with Australia's unique "unit trust" as an investment vehicle and can find a broader, simpler

range of options in Britain or Luxembourg, or even New Zealand. There's no time to waste. Financial services has just surpassed mining as the most valuable sector of the Australian economy. Inside this ecosystem, our fund managers are highly skilled, competitive and efficient and are attracting the interest, and funds, from overseas investors. But these exports remain stubbornly small as a proportion of funds under management, less than 5 per cent.

If we can move this number the rewards will be big — not only increased export value, but also at least 10,000 jobs across the board, according to Deloitte research. The structure Australia needs to compete in the Asian Century must be urgently finished.

Sally Loane is the CEO of the Financial Services Council.